



JULIE LASSA

STATE SENATOR

Testimony on Special Session Senate Bill 16
Senate Committee on Economic Development
and Veterans and Military Affairs
November 15, 2011
10:05 AM
Room 201 Southeast

Mr. Chairman and fellow members, thank you for holding a hearing today on Special Session Senate Bill 16, the Small Business Credit Now Bill. As Senate author of Assembly Bill 90, the legislation on which Special Session Bill 16 is based, I was pleased to see Governor Walker include it in the special session call, because it directly addresses one of the greatest challenges to rebuilding Wisconsin's economy and putting our citizens back to work.

Last year, I had the opportunity to participate in the Wisconsin Competitiveness Study. The Be Bold report released by that group has since been the foundation of several of the administration's economic development initiatives. One point made clearly in that report is that startup companies will lead the way in growing our state's economy. A study published last year by the Kauffman Foundation showed that *all net new jobs* in America are created by young companies, defined as those less than five years old. We have certainly seen that phenomenon in our state, where our largest and fastest growing employers began life as Wisconsin startups. We can look to examples like QuadGraphics, which employs 6,000 Wisconsin workers; Epic Systems that has rapidly grown from two employees to more than 4,000; and Direct Supply, a supply-chain management company that now employs 1,000 workers. If we are to put Wisconsin back to work, we need to foster more success stories like these.

Wisconsin doesn't lack innovation. As the Be Bold report pointed out, our state is a bastion of research and development. What we need is to create an environment that nurtures the development of young businesses as they take products and services from concept to development to market. One of our state's most successful programs in this regard has been the Accelerate Wisconsin tax credit program, known to many as the Act 255 credits. Those credits have been instrumental in generating more than \$130 million in angel and venture

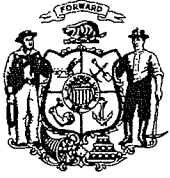
business investments since their inception in 2005. That program has since been joined by others, such as the Economic Development Tax Credit, the Technology Zones credit, and a variety of credits to incentivize investment in dairy, meat and food processing manufacturing, as well as woody biomass harvesting and processing.

The shortcoming with most of these credits is that they aren't much good to companies and investors who do not have a Wisconsin tax liability. Unfortunately, this is the very position that many business startups find themselves in. Especially when they are in development mode, these businesses are likely to be running on minimal amounts of investment capital, and are usually in the red until they can bring a product to market and develop a customer base for it. This early stage is the point at which many of these businesses fail, not because they don't have a great product, but because they can't find the capitalization deal they need to keep their business alive, especially in the currently tight lending market.

Special Session Bill 16 helps to address that situation by creating a way to leverage our existing tax credit programs for companies that don't have a Wisconsin tax liability. It empowers the Wisconsin Economic Development Corporation to make grants to small businesses that would qualify for credits under seven different tax credit programs. The purpose of these grants is to help businesses secure loans from commercial lenders, and those deals have to be in place before the grants are made. The bill has a clawback provision that requires the company to repay the grant if it does not comply with its agreement to conduct business activities consistent with the requirements of the tax credit program.

It might be stated that WEDC could do this now if it chooses to, and that's true. The advantage of this bill, however, is that it ties this grant-making to existing statutes that define the business activities the tax credit programs were designed by the Legislature to incentivize. These include things like job creation requirements and industry targets that help make sure our investment of taxpayer dollars are getting the maximum bang for the buck in fostering growing industries and creating good, family-supporting jobs. WEDC already follows these requirements for the tax credit programs it administers, so we don't have to "recreate the wheel" to develop this new program, either in statutes or operationally.

In short, Special Session Bill 16 creates a way for Wisconsin to "pay it forward", helping the young companies that we need to create jobs by extending the incentives of existing economic development tax credit programs. By using our existing resources to leverage private sector lending, we get the maximum impact from our investment of taxpayer dollars. And by referencing our existing tax credit statutes, we insure that these grants will help create good-paying jobs in sectors that will be vital to our success. I hope the committee will heed Governor Walker's call to give this bill your support.



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TESTIMONY - Special Session Senate Bill 16
Small Business Credit Now Bill
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THANK YOU Chair Leibham and members of the committee for scheduling Special Session Senate Bill 16, the Small Business Tax Credit NOW bill for hearing today.

Small businesses are the backbone of our economy and contribute substantially to state job creation. According to the US Census Bureau, around one half of American workers are employed by small businesses with less than 100 employees. I'm encouraged by the recognition the Legislature and Administration have now placed on small businesses and I am glad to see it will be a priority this Session.

For us to succeed in our efforts, however, we need to recognize both the unique assets and unique challenges faced by small businesses. Many are struggling, and we're losing more small businesses every month.

The credit crunch – lack of access to capital - is one of the most significant problems facing small businesses today. In a recent independent survey, 70% of business owners reported that loans are harder to get and that access to capital is a limiting factor for their business.

As banks respond to new underwriting standards they are cutting back on lines of credit and are more conservative in their lending. That means trouble for small businesses, which rely on lines of credit and conventional financing for start-up and expansion.

I recently spoke with an independent mechanic who, despite having a 25 year relationship with his hometown bank, was unable to borrow \$15,000 for 30 days – long enough to buy a diesel engine from the manufacturer and put it in a truck.

While larger corporations have larger cash reserves and can hire finance experts to help them create sophisticated liquidity schemes to weather tough times, smaller family owned and operated businesses do not have the same “rainy day” capital on hand, and they just don't have as many options.

SS SB-16 would make it easier for these businesses to secure the necessary financing to stay in business.

Even if a business qualifies for credit, banks now commonly require as much as 40% equity to finance a project, a tough hurdle for already cash strapped businesses.

Here in the Legislature, we're good at creating tax credits, but tax credits only get used after the investment is made and when the firm has a profit. If you can't make the investment to begin with, then a tax credit doesn't do you any good.

SS SB-16 would provide businesses with fewer than 25 employees or less than \$5 million in receipts to receive the value of selected tax credits for which they are eligible as a grant to be used as equity for financing. Lenders would certify the proposed loan is for activities covered under the applicable tax credit program and funds would be distributed directly to the lender at closing.

Some of the programs include the Economic Development Tax Credits, Technology Zones Credit, Dairy and Livestock Farm Investment Credit, Dairy Manufacturing Facility Investment Credit, Meat Processing Facility Investment Credit, Woody Biomass Harvesting and Processing Credit, Food Processing Plant and the Food Warehouse Investment Credit.

Passage of SS SB-16 would allow farmers, meat and dairy processors, loggers, small manufacturers, and other businesses easier access to credit which will lead to the creation of those jobs we so badly need.

SS SB-16, the Small Business Credit NOW bill, will help solve one of the major bottlenecks to our state's recovery – the credit crisis for Wisconsin's small businesses and I urge the Committee's consideration of SS SB-16 and swift passage to the floor of the Senate.

An amended version of the Small Business Credit NOW bill that reflects the name change from Department of Commerce to Wisconsin Economic Development Corporation, which occurred since the original drafting, along with other technical changes needed to reflect language in the current state budget has passed the Assembly Committee on Jobs, Economy, and Small Business.

Dear Committee Members,

My name is Greg Piefer, and I am the CEO of SHINE Medical Technologies, a biotech startup company presently located in Middleton, WI. I am sorry that I could not be there to testify in person today, and I thank you for considering my testimony in my absence.

SHINE is a startup company that is planning to produce medical isotopes, which are agents used to diagnose and treat heart disease and cancer in approximately 20 million people per year in the United States. These products are normally produced in a few very old nuclear reactors spattered across the globe, and historically have required the U.S. to export highly enriched uranium as a feedstock, creating a nuclear proliferation threat. Today, these reactors are breaking down, leaving patients in need without access to critical healthcare tools, while the proliferation threat remains.

Our business will fill the hole in the supply chain with a much greener process that uses low-cost, high efficiency particle accelerators. Further down the road, these same accelerators could be used as tools to detect hidden nuclear weapons, enhance the properties of materials, and even transmute long-lived nuclear waste into more benign forms. Beyond that, it could pave the way for abundant, cheap, clean energy. But to do any of this, we need to have a successful startup of this very promising technology.

Wisconsin is full of many stories similar to this, but we all have the same need: better access to capital. Our State is a treasure trove of good ideas and impeccable work ethic, but financial support is needed to turn these dreams and hard work into a product. Unfortunately, this often means tapping sources of capital that are either unconventional (at least for startups), or are located out of the State, putting Wisconsin ventures at a disadvantage.

I have testified before in support of the Next Generation Jobs legislation, and I see that as a powerful vehicle for Wisconsin to retain many high-impact bioscience companies. Today, I testify in support of grant-making tools to improve access to capital. I understand that in making these grants, the risk to the State is reduced by receiving an outside financial match from a qualified lender. I applaud this mechanism as a great start, and see it as a viable way to pick the companies most likely to succeed. Tools like this will bring more capital to promising startups, and greatly increase Wisconsin's ability to retain them. I also ask for the committee's consideration that qualified investments also be seen as a viable tool for receiving a grant. Tools such as this are sure to help open up the capital markets and bring more money into the State.

Historically, the WI Department of Commerce was limited in that its primary incentive tool for retaining good companies was a tax credit. This mechanism is hugely helpful for companies that incur a tax burden, but comes late for startups, who are normally losing money fast until reaching their potential. Granting the WEDC more flexibility than the Department of Commerce had is a move in the right direction and I fully support granting them the additional tools they need to keep promising companies in the State. It will also help the companies that plan to stay here succeed and make the Wisconsin economy a powerhouse for decades to come.

When we (SHINE) are done with the medical isotope project, we expect to employ up to 150 people with the original production facility and will make enough medical isotopes to supply half the demand of the United States. These will be high-tech, high-paid jobs and the business model offers the potential for an additional hundred jobs with this opportunity alone. We also have the chance to expand our technology into many other very useful and lucrative industrial sectors. Ours is the story of many companies created in Wisconsin. Please help us stay here and succeed!

Thank you again for your consideration,

A handwritten signature in dark ink, appearing to read "Gregory R. Piefer". The signature is fluid and cursive, with a prominent "G" and "P".

Gregory R. Piefer

CEO SHINE Medical Technologies

8123 Forsythia St. Suite 140

Middleton, WI 53562